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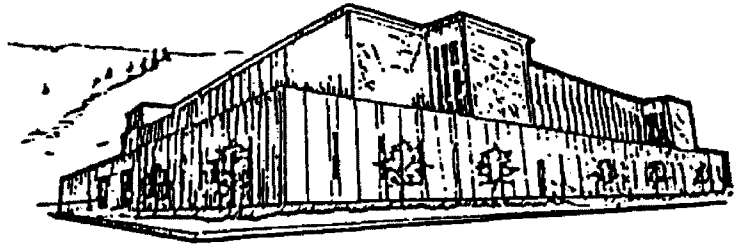
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Date: June 6, 1994

ENTREPRENEURSHIP FOR AFDC RECIPIENTS:

A GRANT PROPOSAL

by

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B.A., University of Montana, 1986

Presented in partial fulfillment of the requirements

for the degree of

Master of Public Administration

University of Montana

1994

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PREFACE

Federal, state, and local government administrators have become accustomed to hiring freezes, program cuts, down sizing, privatization, and program consolidation. In an era of increasingly scarce public resources, public administrators are now looking to private sector Foundation grant resources to staff and fund programs which government cannot or will not fund.

The successful public administrator of the future must, whenever possible, seek out new forms of revenue to protect employee jobs, maintain existing programs, and preserve organizational vitality. The manager who capitulates to budget cuts too willingly allows the organization to wither and consequently squeezes out talented professional staff who leave for better opportunities. In contrast, the manager who aggressively seeks out private sector grant resources to preserve jobs and subsidize capital and management costs creates organizational momentum despite government down sizing. In so doing, the public administrator adds new public services and programs at no cost to the public.

This paper represents an example of a grant proposal submitted by a Public Housing Authority (PHA) to a non-profit foundation. The proposal requests funding for a

self-empowerment job training program for public assistance recipients residing in public housing. It is intended to illustrate how the public administrator can redesign his or her organizational mission to preserve "public" services by reaching out to the private sector.

Other public housing agencies may wish to respond to the realities facing them by redefining and expanding their organizational mission to encompass goals and objectives now in vogue among private sector grant Foundations.

CHAPTER I

INTRODUCTION: AN INNOVATIVE APPROACH

Public Housing Authority (PHA) requests \$36,000 assistance in establishing a micro-loan pool for PHA's proposed Business and Entrepreneurship Training Program (Program). The Foundation bequest will be utilized entirely for the Program's micro-loan pool component. The term of the pilot program runs from June 30, 1995 to December 31, 1999. The proposed PHA Business and Entrepreneurship Training Program prepares qualified low income AFDC recipients to create and manage home-based business enterprises. The Program combats poverty and creates net public savings by transforming individuals dependent on public assistance programs to self-sufficiency and tax paying citizens. The Program focuses more on creating business owners than on creating new businesses.

PHA is a public corporation operating under state law in Bismarck, North Dakota. The 1937 Housing Act and subsequent state enabling legislation created a public housing entity charged with providing safe, decent, and affordable housing to low income families. The primary funding for these housing programs comes from contracts with the Department of Housing and Urban Development (HUD). PHA has very little discretionary funding for human service type

programs but may lawfully administer such programs under state and federal law. A volunteer board of commissioners governs PHA. PHA owns and manages over 440 units of low income housing and administers 700 Section 8 Housing Certificates/Vouchers that subsidize a family's rent to a private property owner. PHA currently employs twenty-two people.

The idea for PHA's proposed Business and Entrepreneurship Training Program came from an extensive survey of public housing residents receiving Aid to Families with Dependent Children (AFDC) assistance. (AFDC is a government program sponsored by the North Dakota Department of Human Services and the U.S. Department of Health and Human Services. The program provides cash payments to families for unmet needs of children and assures family support for children.) The survey indicated strong interest in entrepreneurial training and self-employment as a means of achieving self-sufficiency. Specifically, of the 73 AFDC recipients surveyed, 47 expressed interest in the Program. Of those, the survey revealed that 34 possessed a marketable skill or service. PHA estimates that 604 AFDC recipient families receive housing assistance from PHA.

Programs promoting entrepreneurship training and home-based business creation meet the needs of AFDC recipients

and result in significant public savings for several reasons:

- * home-based business ownership allows low income families to retain their Medicaid insurance and provide their own child care while terminating public assistance;

- * home-based business ownership offers opportunities for occupational advancement traditionally denied the non-skilled poor and minorities;

- * having a job, having money, and going to work mean the freedom to make choices; fostering choices for people is the key to individual empowerment.

PHA modeled its Program on dozens of similar anti-poverty programs in other regions of the country. The concept has been tested and proven to move individuals from dependency on the welfare system to self-sufficiency.(1)

Foundation seeks to particularly fund innovative type programs which promote self-empowerment. The proposed Program utilizes an innovative Program design in at least three ways. First, the Program combines community resources in a way that lowers Program costs. A survey of similar programs reveals a reliance on store fronts, high priced consultants, large budgets, and minimal participant assessment.(2) The proposed PHA Program relies on volunteers, in-kind contributions, community collaboration, home-based businesses, and a sound screening process. These elements dramatically lower Program costs, increase

effectiveness, and may serve as a model for similar programs wishing to create jobs for public assistance recipients at a minimal cost.

Second, the Program creates home-based businesses instead of store fronts to lower participant start-up costs. PHA places relatively small amounts of capital at risk per Program participant. This conservative approach differs from those programs which invested tens of thousands of dollars in businesses owned by low-income persons that later failed. PHA believes that participants must expand their businesses from home-based enterprises into something greater and more substantial.

Finally, the Program targets low income families in an economy dominated by minimum wage, service sector jobs. Most similar programs and experimentation occurred in large inner city areas and targeted minority business creation. PHA's Program occurs in a more rural area, with little or no manufacturing, whose economy relies primarily on service and retail trade to the surrounding farm communities and jobs at the minimum wage.

PHA and other contributors to the proposed Program recognize the grim reality facing AFDC recipients but agree that welfare dependency should not be a way of life. Non-

skilled, single, AFDC mothers in Bismarck, North Dakota have few existing choices other than to remain on public assistance or obtain a minimum wage job with no health insurance. The proposed Program addresses that problem and offers a workable and effective solution.

CHAPTER 2

PROBLEM DEFINITION

PHA residents live in relative poverty with very little access to or opportunity for employment and entrepreneurship. All residents live below 80% of median income. Over 35% of the families are minority (mostly Native American). Only 26% are employed.

Federal law allows PHA to keep only limited statistical data on its residents. However, PHA residents seem to mirror the characteristics of impoverished families in America: women and children comprise a disproportionate percentage of the poor.

The unique barriers faced by mothers and the disparate impact on their children has been called by one author as the "feminization of poverty." (3) Nearly one in four American children (23.5%) lives with a single parent of which 89% live with their mothers. (4) 61% of children born in 1987 will live for some time with only one biological parent before reaching eighteen. (5) One American child in four currently depends on AFDC at some point in their lives. (6)

The presence of more than one worker in a family

dramatically lowers the probability of poverty. In particular, when both husband and wife work full time, they generally escape poverty.(7) Thus, unmarried women maintaining families are in the greatest risk of living in poverty. It is especially difficult because women continue to earn substantially less than men.(8)

PHA routinely observes several barriers facing AFDC recipients. One such barrier consists of the stigma and shame associated with being a "welfare mother." One study found that AFDC mothers frequently believe others perceive them as shiftless and lazy and come to feel apathetic and alienated from the working world.(9) The results indicate that a psychological relationship may exist between public assistance receipt and self-image. If true, public assistance itself may be one cause of welfare dependency.

A second barrier faced by AFDC mothers consists of a lack of affordable child care. Two out of every three AFDC recipient families have children under five.(10) The Job Opportunities Basic Skills Training Support Act of 1988 (JOBS) provides funding for a variety of social services for AFDC recipients, including child care reimbursement.(11) However, North Dakota currently does not accept voluntary participants.(12) Therefore, AFDC recipients not enrolled in the JOBS program must absorb the entire cost of child

care. A survey of licensed Bismarck child care providers showed that hourly fees of children under five ranged from \$1 per hour to \$2 per hour per child.(13) Thus a single woman with two children has as much as two dollars per hour deducted from her gross \$4.25 per hour minimum wage for choosing to work.

A third barrier facing AFDC recipients is that minimum wage positions frequently do not offer a discernible career track. "Low skill" positions mean that job incumbents are fully trained and qualified in a relatively short period of time.(14) Therefore, significant experience does not translate into higher wages. Furthermore, the relatively quick mastery of the job discourages employers from providing additional training which makes occupational advancement difficult to obtain. Minimum wage jobs are "traps" because they do not offer advancement of skills, responsibility, or income levels.

A fourth barrier faced by AFDC recipients concerns the welfare system itself. A 1988 study done by the U.S. House Ways and Means Committee illustrates the dilemma faced by AFDC mothers.(15) Although conducted in Pennsylvania, the analysis illustrates the problems with welfare policy in general. The study found that a wage earner must earn \$7.00 per hour to keep a family of three (one mother and two

children) above the poverty line. The same wage earner at minimum wage (\$4.25 per hour) falls nearly \$5,000 short of keeping her family above the poverty line, even before paying child care costs. That leaves a \$2.75 per hour gap between a living wage and a minimum wage. In contrast, AFDC, Food Assistance, Energy Assistance, Housing Assistance, and Medicaid, keep the family just below the poverty line.

In order to provide incentives for low income people to work, Congress enacted the Earned Income Tax Credit of up to \$3,370 per year.(16) Thus a single parent family with two children earns \$8,840 in gross annual wages (full time at minimum wage), receives the \$3,200 tax credit, and receives the equivalent of \$3,200 in food coupons.(17) This amount raises the family to approximately the poverty level.

PHA recognizes the incentives created by the Earned Income Tax Credit but questions its ability to create truly self-sufficient families and public savings. First, the tax credit itself does not produce self-sufficient families because the credit and food stamps require government transfer payments. Second, for the reasons outlined above, the single parent wage earner experiences only limited occupational growth potential because of the nature of most minimum wage jobs. Third, the cost of child care makes

working less attractive compared with remaining on public assistance programs. Fourth, a minimum wage job creates just enough income to terminate a family's Medicaid health insurance. Therefore, a single parent may still make a rational choice by choosing to remain on the various public assistance programs and, furthermore, the Earned Income Tax Credit does not really produce self-sufficient families.

A fifth barrier faced by AFDC recipients, structural unemployment, results from the continuing involuntary joblessness which exists when unemployment has been reduced by public policy as much as possible without causing unacceptable rates of inflation.(18) Statistical data reveals that the United States experienced a structural shift from a predominantly manufacturing based economy to a service oriented economy beginning in the mid-1970s.(19) This shift stems from, among other things, increased automation, changes in consumer tastes, a substantial increase in the size of the labor force, and a sharp demand increase for services.(20) The shift created structural unemployment for many unskilled workers unable to escape poverty, even by working, because of an insufficient number of jobs for unskilled workers. The Federal government responded to this structural shift by adopting a labor policy which emphasizes grants and loans to train unskilled workers for positions with good occupational outlooks.(21)

However, very few realistic non-agricultural possibilities exist for unskilled AFDC mothers in a predominantly service oriented economy like Bismarck. Bismarck, the capitol of North Dakota, serves as the primary regional trade and service center for central North Dakota. The retail trade area extends for a radius of approximately 50 to 100 miles and encompasses the communities of Minot, Dickinson, and Morbridge.(22) Two large regional shopping centers in Bismarck account for much of this trade. Bismarck possesses virtually no manufacturing sector.(23)

The City has shown a slow but steady decline in its unemployment rate since 1985 and an increase of about 1,000 new non-agricultural jobs per year since 1987.(24) Most of this growth occurred in minimum wage, retail trade and service positions.(25) Therefore, unskilled women wishing to stay in Bismarck have few realistic options other than to obtain minimum wage jobs in the service and retail trade sectors.

The lack of affordable small business training programs creates a sixth barrier faced by AFDC recipients. Bismarck hosts no home-based entrepreneurship vocational training programs that specifically meet the needs of AFDC recipients. Small business training programs in the community require at least two years of college training and

considerable financing. In addition, they frequently intimidate low income women and provide only vocational training. For a variety of different reasons, many AFDC recipients lose financial aid eligibility and therefore access to traditional higher education training programs.(26) Finally, many single parents cannot afford the cost of child care while attending traditional college training programs.(27)

In contrast, PHA will offer its proposed Program free of charge, in only twelve weeks, and will provide child care during training. Participants experience a supportive training environment specifically targeted at low income women.

The proposed Program design addresses the barriers to self-sufficiency outlined above. PHA recognizes that self-employment appeals to many Americans and is considered a privilege in the United States. However, PHA believes that policy makers must experiment with and promote self-employment options for low income persons.

CHAPTER 3

PROGRAM GOALS AND OBJECTIVES

The Mission Statement for the proposed Program reads as follows: To encourage and professionally train AFDC recipients desiring to develop small businesses and to provide the opportunity for self-sufficiency.

Goal #1 - A Transitional Program

A goal of the PHA Business and Entrepreneurship Training Program is to provide a transitional experience for qualified individuals desiring to move from dependence on public assistance to self-sufficiency. The Program targets AFDC recipients with the proven knowledge, skills, maturity, motivation, and interest to successfully establish and maintain a home-based business.

Objective #1

PHA will sponsor a Business and Entrepreneurship Training Program for qualified residents. PHA will contract a qualified business instructor to train participants in home-based business creation and administration. The instructor will also assist participants in drafting business plans.

Objective #2

PHA will facilitate an outreach campaign among residents. Elements include:

a. recruit fifty resident families to attend an information meeting about business entrepreneurship as a means to self-sufficiency;

b. recruit twenty-five resident families to participate in the training program and ameliorate logistical problems such as child care and transportation.

Objective #3

PHA will establish and apply criteria for assessing a resident's potential for success as a home-based entrepreneur.

Objective #4

PHA will hire a Program coordinator to facilitate the Program.

Goal #2 - Financial and Technical Assistance

A goal of the PHA Business and Entrepreneurship Training Program is to provide financial and technical assistance which enables participants to adequately capitalize, create, and administer a home-based business.

Objective #1

PHA will recruit, train, and place a corp of local

business persons to provide technical business counseling and moral support to Program participants.

Objective #2

PHA will establish a home-based business loan pool to provide capital for participant business start-up. Elements include:

- a. create and administer a sound business loan program for low income residents;
- b. utilize recognized banking practices in Program lending.

Goal #3 - Public Savings

The Program's primary goal is to create nine self-employment enterprises over the term of the grant and generate complete family self-sufficiency income at a public savings of \$218,952. See Appendix A.

Besides providing employment for the home-based business entrepreneur, the Program provides a number of other positive benefits for the low income community. While these are not specific goals of the Program, several positive incidental consequences should be mentioned. The Program:

1. Improves participants' reading comprehension, analytical thinking, math and verbal skills;

2. Provides increased awareness and sensitivity to the employee/employer relationship, thereby improving participant employment work history;

3. Empowers participants by increasing self-esteem, motivation, desire, and commitment to become self-sufficient;

4. Creates successful role models for the participants' families and the low income community in general;

5. Instills self-discipline, goal orientation, and monetary motivation in people dependent on public assistance programs;

6. Provides an opportunity and, most importantly, hope for the community's impoverished families;

7. Provides a positive domino effect by creating opportunities for Program families and other families who obtained a job or place in a training program because the Program participant chose self-employment.

CHAPTER 4

METHODOLOGY

Policy makers traditionally look to the manufacturing sector for job creation and economic health. However, small business job creation surpasses the economic impact of manufacturing job creation. 80% of the new jobs created in the three years leading up to the recession of the mid 1980s were created by businesses of one hundred employees or less.(28) Of those new jobs, 82% were in retail and wholesale trade and services.(29) In addition, a study of almost 5,000 new business owners showed that only 34% possessed a college degree and only 39% completed two or more business courses at anytime during their educational experience.(30) Thus the proposed PHA Program realistically exploits a vital and important new source of job creation in America.

PHA will hire a Program Coordinator to facilitate assessment of Program participants and organize the classroom training segment, financial assistance, support services, and recruitment of volunteers. The City of Bismarck will fund this position through Community Development Block Grant Funds.

PHA bases the proposed Program on the Supportive Work

Services Model (SWS). SWS has proven successful in placing and retaining hard-to-employ persons with little or no work experience, few job skills, and the myriad of personal and institutional barriers to productive employment faced by low income mothers.(31) The model emphasizes a full complement of supportive services that continue from Program admission through and beyond self-sufficiency. The SWS stages are assessment, intervention, transition, termination, and self-sufficiency.

The SWS model provides child care and transportation services for the Program participant. The Abused Adult Resource Center (AARC), a local non-profit organization with a very large volunteer base, donates volunteers to provide child care and transportation services to participants during training sessions.

Assessment

Stage one consists of assessing Program participants for entrepreneurship aptitude, product/service potential, and motivation to become self-sufficient. Thus, before Program admission, participants possess prerequisite basic skills, have identified career options, and have a basic understanding of the free enterprise system.

Occupational specialists classify entrepreneurship skills as technical skills and operational skills.(32) Technical skills refer to the understanding necessary to produce a particular service or product. Operational skills refer to the managerial, financial, and legal skills and knowledge necessary to administer a business. The proposed PHA Program screens for sufficient technical skills, aptitude to learn operational skills, and then teaches operational skills.

PHA will establish specific criteria for Program admission. First, all Program clients must possess a high school diploma or equivalent. This requirement demonstrates basic verbal and math ability and also acts to encourage PHA residents who do not have a GED to obtain one.

Second, the North Dakota Job Service administers two tests required of all Program participants. First, the TABE test measures general aptitude for specific occupations. Program participants must score at least a nine out of a possible fourteen on both the verbal and mathematics portion of the test.

In addition, the GATBE test measures Program participants' interest in business and entrepreneurship. The interest inventory identifies the successful traits of

an entrepreneur and then measures for those traits in the Program participant. PHA will not use results of this test as admissions criteria but will share results with Program participants and counsel accordingly.

Third, before admission, participants receive counseling on their business ideas. The Executive Director of the North Dakota Marketing Alliance evaluates all manufacturing ideas. PHA encourages participants to produce a low cost prototype of their product before enrollment. Program participants interested in marketing a service receive job service counseling on the occupational outlook and feasibility of such a business in the Bismarck area. The North Dakota Department of Labor publishes statistics on the number and success of such businesses in the Bismarck area. PHA encourages participants to choose a workable business idea before Program admission but will not deny an applicant admission who does not possess a marketable skill, service, or product.

Finally, the Program Coordinator interviews Program participants to further assess their knowledge, skills, and abilities. PHA gives the Program Coordinator authority to reject any applicant. PHA gives applicants rejected from the Program a written letter explaining the admissions criteria in which the applicant failed to meet. PHA also

informs the applicant of how to meet these criteria and how to apply for admission in the future. Rejected applicants may submit an appeal to the PHA Executive Director who may overrule the decision of the Program Coordinator.

Marketable skills, educational achievement, and business training aptitude indicate individual potential for successful entrepreneurship. Thus the Program does not divert low income individuals into entrepreneurship who will likely fail or need further development in some areas.

Intervention

Stage two consists of intervention with Program participants. Intervention refers to the process of modifying undesirable behavioral patterns. This process begins by building dignity, self-respect, and most of all the hope of self-sufficiency. In addition, participants discover entrepreneurship competency and problems faced by entrepreneurs.

This stage begins with two orientation meetings and continues throughout the Program. The first orientation meeting features an address by the Executive Director who tells participants they passed through a rigorous screening process and emerged as individuals with the proven potential

for business ownership. Then entrepreneurs from low income backgrounds describe their personal journeys from welfare dependence to family self-sufficiency by describing their lives before and after business creation.

The second session features the Director of the Small Business Development Center describing the skills, commitment, and drive necessary to create and operate a sole-proprietorship and concludes that all participants have those qualities by virtue of their being chosen for the Program.

The Program Coordinator and Volunteer Mentors continue the process of building dignity and self-respect throughout the Program.

Transition

Stage three consists of providing the transition experience from dependency to self-sufficiency. Here the participant learns entrepreneurship competency, applies specific occupational training to classroom problems, and drafts a real and workable business plan. The transition consists of business training and financing.

VOCATIONAL TRAINING: The North Dakota Department of

Vocational Education has pledged long-term grant support for adult entrepreneurship training. The funding allows PHA to hire a college professor from Bismarck State College. All classroom activities take place in PHA's activity room.

The PHA entrepreneurship training course consists of twelve weeks of classroom training. Graduation requirements include attendance at eleven of twelve classroom sessions and a satisfactory evaluation from the instructor on the student's business plan. PHA designed the course to provide the participant with the entrepreneurship competency to create and administer a micro-business enterprise that can maintain a family of three above the poverty line. A course syllabus is attached in Appendix B.

MICRO-LOAN POOL: The micro-loan pool provides small, short-term business loans to qualified participants for the purchase of raw materials and some capital acquisition. See Appendix C. PHA grants loans at a 7% rate of interest. Participants are expected to begin repaying the loan from sale proceeds beginning four months after receiving the loan. Interest begins to accrue on the loan upon receipt by the Program participant.

Bismarck Bank (Bank) has agreed to provide services to the Program as part of its Community Development

Reinvestment Act (CRA) obligations. CRA, a federal banking law, requires banks to make investments in their communities.(33) In general, the Act requires banks to establish programs that make credit and capital available to individuals who have traditionally been denied such access and, in particular, to help moderate and low income persons.

PHA places the Foundation bequest in a trust account administered by Bank. PHA submits draft orders to Bank and Bank makes the loan to the Program participant. However, Bank will not initiate collection proceedings. Bank also calculates the applicable interest accrual amounts on Program loans and a Bank official serves on the Program Review Committee.

In addition to the Bank officer, the PHA Executive Director and the Director of the Small Business Development Center serve as Review Committee members. Each individual has one vote and at least two individuals must approve Program loans.

The guidelines outlined below govern the Program Review Committee when considering loan applications. First, the Program participant must submit a realistic and sound business plan detailing the type of business, amount requested, and marketing, cash-flow, production, and

financial analysis. The application must also contain the applicant's resume and a list of three references. Finally, the application must contain a statement detailing what impact the loan will have on the Program participant and the low income community, if any.

Second, the Program participant must show, through the Bank's Small Business Loan Application that all re-occurring debt, including average utility costs, housing and the Program loan payment, do not exceed 70% of gross effective income. Effective income includes food stamp values, AFDC payments, child support payments, energy assistance payments, social security disability payments, and other government payments.

Third, the applicant must show through the Bank's Small Business Loan Application, that the applicant's credit history demonstrates an appreciation for the use of credit. Any of the following will result in automatic denial of the applicant's loan request: current default on a Federal Student Loan, Federal Bankruptcy within the past seven years, three or more late payments within the last two years, two or more delinquent payments within the last two years, or one or more judgments stemming from a financial obligation within the last two years. Any of the above associated with a divorce or a medical condition beyond the

applicant's control will be judged according to the applicant's responsibility for the debt.

Fourth, the Program Review Committee analyzes the applicant's business plan, work history, total credit history, financial situation, and approach to credit when analyzing loan requests. The Committee interviews each applicant about his/her loan request and business plan and may condition loan approval on modifications of the business plan.

Fifth, the applicant must hold a PHA Business and Entrepreneurship Training Program Graduation Certificate and currently receive AFDC payments at the time of application.

Sixth, the applicant must demonstrate a 10% equity interest in the proposed purchase(s) and certify that the equity will be used with the loan for the purchase(s).

The Program Review Committee may authorize up to \$3,000 in loan financing to any one participant for no more than a two year term. While no collateral or security provisions apply to the loan, the Committee may deny all future financing to any applicant with two late payments or more to Bank and will report all credit information to the appropriate credit reporting agencies. PHA assesses a \$15

loan application fee used entirely to obtain a credit report on the applicant.

The Program cannot succeed without the micro-loan pool component. Unfortunately, Bismarck area low income entrepreneurs lack access to traditional business loan financing. At present, Bismarck possesses no micro-loan financing programs or minority business finance programs in North Dakota specifically meeting the needs of low income entrepreneurs. The Northwest Marketing Alliance loan pool offers opportunities for individuals doing selected crafts but no longer accepts membership applications. The Bureau of Indian Affairs offers loan and grant programs to Native American entrepreneurs. Unfortunately, these programs target only Native American families in "Native American Communities." The Small Business Administration loan programs target relatively large businesses and not micro-businesses. Anecdotal evidence indicates that Bismarck area banks will not provide conventional financing for businesses with an equity value of less than \$10,000.

PHA expects the default rate to approximate 30% of the loan pool principal. Accrued interest will offset some of this loss.

The proposed Program capitalizes on existing

participant skills and abilities. Skills which might not command a living wage working for another may provide sufficient income for a home-based entrepreneur. Those interested in becoming self-employed generally possess most of what they need to launch a home-based business (space, tools, skilled labor, utilities, etc.) A home-based business allows the entrepreneur to forego the cost of office rent, utilities, and most start-up costs. Therefore, only limited training and financing is required to begin the business.

A short-term small business loan program greatly assists a low income entrepreneur working to become self-sufficient. For example, a Program participant making designer wood shelves may identify a real and lucrative market for her products. Unfortunately, she lacks funds to purchase equipment and raw materials. A short-term loan allows her to purchase saws and wood. Proceeds from the sales are then repaid to satisfy the micro-loan and she retains the remaining profits.

In another example, Program participant identifies an actual community need for low priced clothing alterations and mending. Under the proposal, she borrows money to purchase a used sewing machine, using both her savings and loan pool financing for the purchase. She then repays the

loan over two years using proceeds from her home-based clothing alterations business.

Termination

Stage three consists of becoming self-employed and solving business problems. Certain Transfer Payment Incentives (TPIs) from the Department of Human Services (the Department) and support services from Program personnel and volunteers facilitate this process.

The Program Coordinator recruits community business owners to act as volunteers in mentoring Program participants. Volunteers receive two hours of training consisting of Program and participant expectations, business counseling techniques, and education on self-esteem issues.

The Program Coordinator matches volunteer mentors with Program participants according to personality and business type, marketing strategy, and other factors leading to a successful relationship.

The volunteer mentor pledges to meet with the participant for approximately one hour per week at his/her place of business or another convenient place. The mentor counsels the participant on marketing strategies, cash flow

analysis, product development, pricing, contracts, and other aspects of the participant's business and business plan. In addition, the Program Coordinator phones or visits all Program participants at least six times per month. The Program Coordinator also endeavors to find participants a replacement mentor should the participant-mentor relationship prove unsuccessful.

TPIs also assist the Program participant in terminating public assistance. TPIs refer to a set of policies and programs designed to enable and encourage transfer payment recipients to invest their benefits toward achievement of greater levels of economic self-sufficiency. Taken together, they provide an impetus for low income persons to pursue self-employment over public assistance. Without TPIs, public assistance benefits would be reduced dollar for dollar upon employment resulting in a 100% tax on earned income, the loss of child care (their own) and the possible loss of medicaid insurance for all family members.

PHA will enter into agreements with Job Service of North Dakota and the North Dakota Department of Human Services. These agreements grant Program participants waivers from the requirements that unemployed food stamp recipients participate in a job search program and that unemployed AFDC recipients receiving mandatory JOBS

placement create a personal self-sufficiency plan. This status may continue for two years and as long as PHA provides monthly reports and regular monitoring of participant performance.

FOOD ASSISTANCE: The U.S. Department of Agriculture and the North Dakota Department of Human Services administer this program. It provides food coupons or stamps to low income eligible recipients which can be redeemed for food at participating retail grocery stores.

Food stamp eligibility and allotment are based on a complex formula involving assets, income, and family size. Self-employment income merely adds income but does not affect family size or assets. Therefore, newly acquired inventory, equipment, or supplies will not affect participant eligibility.(34)

The Department provides one TPI in the food stamp program. Only 80% of yearly net income counts as earned income. Thus benefits are reduced \$80 for every \$100 earned.(35)

AID TO FAMILIES WITH DEPENDENT CHILDREN: This program is administered by the U.S. Department of Human Services and the North Dakota Department of Human Services (the

Department). It provides cash payments to families for unmet needs of children and assures family support for children.

AFDC eligibility is based on a complex formula involving assets, income, and family size. Self-employment merely adds income but does not affect family size or assets. Therefore, AFDC benefits are not affected by a business loan, inventory, supplies, or equipment.(36)

The Department provides three TPIs in the AFDC program. First, as long as the earned income is over \$91 per month, the participant will receive \$90 per month employment expense allowance. In other words, the first \$90 per month of earned income does not affect the AFDC benefit amount. Second, the Department applies the Earned Income Disregard. Under this formula, the next \$30 of earned income will not affect the AFDC benefit amount for an additional eight months. Third, the Department deducts the cost of paid child care during training or working hours from earned income.(37)

HOUSING ASSISTANCE: This program is administered by the Public Housing Authority and the Department of Housing and Urban Development. It provides affordable housing to low income individuals based upon their income level.

PHA allows residents to deduct their legitimate business expenses from gross monthly income.(38) PHA then divides the net monthly income amount by 30% to determine the monthly rental housing amount. Fair Market Rent equals the estimated community value of the rental unit; residents pay no more than Fair Market Rent.(39)

PHA provides one TPI. Under the Family Self-Sufficiency Program, PHA enters into an agreement with Program participants whereby any increase in rent attributable to self-employment income will be placed in a savings account administered by PHA. If, after two years from the time of business creation, participants have achieved complete family self-sufficiency, then all monies accrued in the savings account and any interest earned on that account will be given to the participant.(40)

TPIs allow gradual withdrawal and termination from public assistance for the sole proprietor. Thus, benefits rise and fall according to the business' monthly performance. Eventually the entrepreneur reaches an income level whereby income exceeds the eligibility limits for all programs and rent equals the fair market value. This point is called self-sufficiency.

Self-Sufficiency

Stage four, Self-Sufficiency, consists of providing the necessary services to allow Program participants to remain self-sufficient once they have terminated public assistance. The Program Coordinator organizes entrepreneurs to participate in bi-weekly round table discussions to share common experiences, problems, and solutions. In addition, the Program Coordinator schedules mini-seminars on issues and concerns which arise from the round table discussions. Finally, a monthly newsletter reports Program participant success stories, business tips, and community resource information. The Program Coordinator also continues to provide counseling and support to the volunteer mentors and participants.

CHAPTER 5

BUDGET

The budget shows sources of revenue for the three years of the proposed training program. The \$36,000 Foundation bequest is amortized over three years at \$12,000 per year. The Foundation bequest will be used entirely for the loan fund component.

<u>Resources</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
PHA	\$ 3,302	\$ 3,302	\$ 3,302
Foundation	36,000	0	0
Vocational Education	402	402	402
Small Business Admin.	525	525	525
City of Bismarck	27,000	27,000	27,000
Bismarck Bank	2,400	2,400	2,400
TOTAL	<u>\$69,629</u>	<u>\$33,629</u>	<u>\$33,629</u>
			<u>\$136,887</u>

<u>Expenses</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Personnel	\$27,804	\$27,804	\$27,804
Printing	250	250	250
Copies	250	250	250
Office Materials	150	150	150
Phone	150	150	150
Course Materials	525	525	525
Mileage	250	250	250
Postage	300	300	300
Office Equipment	150	150	150
Miscellaneous	200	200	200
Office Space	1,200	1,200	1,200
Loan Fund	12,000	12,000	12,000
Bank Fees	2,400	2,400	2,400
TOTAL	<u>\$45,629</u>	<u>\$45,629</u>	<u>\$45,629</u>
			<u>\$136,887</u>

CHAPTER 6

EVALUATION

The evaluation of Program goals will be published by PHA, made available to the North Dakota State Legislature for possible enactment as a welfare reform proposal, and made available to the Foundation.

PHA measures quantifiable outcomes as the entrepreneur's total public assistance burden upon entry into the Program, net annual public assistance reduction attributable to loan pool financing, and participant Program costs generated from net business income. PHA estimates aggregate public savings will total over \$231,116.00.

PHA recognizes that most participants will, at least initially, move from the welfare poor to the working poor. However, PHA and the Program participants believe that self-sufficiency is always preferable to dependency. Furthermore, entrepreneurship and persistence will lead the participant to an increasingly successful business or a career track as a wage earner. Both alternatives are superior to dependence on the welfare system and unemployment.

PHA includes self-sufficient graduates of the Program

as those who were offered employment because of their self-employment work experience, contacts, training, or any combination thereof. The experience and education gained and developed from the Program improves the participant's chances of self-sufficiency beyond just self-employment. PHA recognizes that graduates may develop new contacts with other business owners or gain work experience in a product or service market which leads to employment more profitable than business ownership.

The evaluation will contain the following information based upon the goals and objectives outlined in Chapter 3:

- * A copy of the college instructor's resume, contract, and student evaluations of the instructor and vocational training program;
- * A copy of the course text and student evaluation of all classroom materials;
- * A copy of all student business plans submitted as a course requirement;
- * A copy of the admissions criteria used to screen program applicants;
- * The number of PHA residents attending information meetings;
- * The number of participants enrolled in the entrepreneurship training course;
- * The number of participants who began a business enterprise;
- * An analysis of each business begun, the number of families achieving self-sufficiency through business creation, and a cost analysis of public savings achieved from the Program.

CHAPTER 7

CONCLUSION

PHA supports programs designed to move dependent AFDC recipients to self-sufficiency. However, PHA questions what kind of jobs unskilled women terminating public assistance will obtain in Bismarck. PHA believes that the food preparation worker at Burger King can own and manage a home-based cake decorating business; that the maid at Holiday Inn can own and administer a home cleaning business; and that the cashier at Wal-Mart can produce Native American craft items.

PHA recognizes the great and historical movement now sweeping through Congress to "change welfare as we know it." In the event that Congress chooses to force welfare recipients to work after two years as the President apparently will propose, PHA believes that experimentation with entrepreneurship and single mothers is needed now more than ever.

As Congress debates the various options for reforming welfare, the innovative PHA Program may well serve as a model for communities, like Bismarck, with little or no manufacturing base and an economy based on minimum wage jobs. The PHA Program actually invests in welfare

recipients to create jobs that would not ordinarily exist. In so doing, it helps transform the safety net into a ladder. Innovative programs assisting individuals to escape poverty and transfer payment dependence while achieving true self-sufficiency provide the best opportunities for impoverished families.

The comprehensive Supportive Work Services model employed by PHA utilizes a broad range of services including child care, vocational entrepreneurship training, financial assistance, and mentorship to assure Program effectiveness. The Program brings together community volunteers, financial institutions, government agencies, non-profit organizations, and motivated low income mothers to lower Program costs and improve Program efficiency.

APPENDIX A

PHA assumes participants will take three months to train and nine months to establish and achieve self-sufficiency. Self-sufficiency means paying Fair Market Rent for housing to PHA and no longer receiving AFDC, Food Assistance, or Medicaid Transfer Payments.

For purposes of computation, PHA assumes that a Program participant family means a single woman with two minor children (the average AFDC recipient family) who do not contribute to household income. PHA assumes that a Program participant family receives \$12,164.00 per year. PHA calculates this amount as follows:

<u>Program</u>	<u>Annual Amount</u>
AFDC	\$ 4,368.00
Food Stamps	3,200.00
Housing	3,036.00
Medicaid	1,560.00
Total	<u>\$12,164.00</u>

Note that the above figures are based on Burleigh County Social Service figures and do not account for administrative savings from case load decreases attributable to the Program.

PHA assumes that the Program will generate \$218,952 in public savings over the four years of the Foundation Grant.

PHA assumes nine participant families will become self-sufficient. The following table shows how this savings is achieved. SSF means "Self-Sufficient Family."

<u>Year</u>	<u>New SSF</u>	<u>Carry- Over SSF</u>	<u>New Savings</u>	<u>Carry- Over SSF</u>	<u>Total</u>
2	3	0	\$36,492	0	\$ 36,492
3	3	3	36,492	\$36,492	72,984
4	3	6	36,492	72,984	109,476
					<u>\$218,952</u>

APPENDIX B

Entrepreneurship Training--Going Into Business

Session 1 - Dare to Dream

- A. What hard work can accomplish
- B. Developing the right attitude
- C. Responsibility to self, family, and community

Session 2 - Getting It Together

- A. Putting your past behind you
- B. How you can make it
- C. Time management, motivational, and organizational tips

Session 3 - Going into Business--Personal Expectations

- A. Personal views about business and business owners
- B. Societal views on entrepreneurship and business
- C. Personal qualities needed for business ownership
- D. Personal skills and training needed
- E. Personal expectations and outcomes of business ownership

Session 4 - Examining Business Trends and Opportunities

- A. The economy of the country --what's happening
- B. The regional and state economic picture
- C. Economic development in your community
- D. Types of business trends--from past to future

Session 5 - Choosing Your Business

- A. Demand for the product or service
- B. Availability of customers
- C. Types of customers
 - 1. Government
 - 2. Other businesses
 - 3. Off the street
 - 4. Combination
- D. Competitors--direct and indirect
- E. Marketing considerations
- F. Availability of workers and employees

Session 6 - Understanding Legal Requirements

- A. Federal government regulations
- B. State laws
- C. Local requirements
- D. Government paperwork

Session 7 - Recordkeeping Requirements of Business Ownership

- A. Accounting and tax records
- B. Hiring and payroll recordkeeping

- C. Loan payments--keeping track of interest
- D. Business and personal income tax
- E. Skills and training for recordkeeping

Session 8 - Forms of Business Ownership

- A. The sole proprietor
- B. Partnerships
- C. Corporations
 - 1. Subchapter S
 - 2. Regular
- D. Cooperatives

Session 9 - The Business Plan - Planning and Organization

- A. Parts of the business plan
 - 1. Introduction
 - 2. The product and/or service
 - 3. The marketing plan
 - 4. The financial projections
 - 5. Personnel and management

Session 10 - The Business Plan - Marketing Plan Development

- A. Reaching the customer
- B. Home-based marketing
- C. Pricing strategies
- D. Image
- E. Advertising and Promotion

Session 11 - The Business Plan - Financial Projections

- A. Estimating operating costs
- B. Determining what equipment will be needed
- C. Determining personnel costs (your own)
- D. Determining inventory needs
- E. Estimating sales
- F. Paying back borrowed money
- G. Estimating profit--if any

Session 12 - The Business Plan - Putting It All Together

- A. How to prepare the plan--having to make sense and look good
- B. How to present the plan--having someone look at your plan and offer advice

APPENDIX C

PHA requests \$36,000 to capitalize the Program's micro-loan pool. PHA assumes that the average loan will be \$3,000 at a two year term based on 7% simple interest. PHA assumes that the Foundation bequest will be placed in Bank's trust account at a compound interest of 3%.

PHA also assumes that three loans will go into default at a total loss of \$9,000. Therefore, PHA assumes a default rate of 25% on the loan pool principal.

PHA also expects to earn \$5,535.03 through interest on its trust account with Bismarck Bank and interest on its micro-loans. This amount will be used to off-set the expected default accounts.

The following table illustrates the loan pool activity over the term of the grant:

<u>Year</u>	<u>Participants Receiving</u>	<u>Amount Loaned</u>	<u>Amount Defaulted</u>	<u>Amount Repaid</u>
1	4	\$12,000	0	\$ 0
2	4	12,000	\$3,000	9,000
3	4	12,000	3,000	9,000
4	0	0	3,000	9,000
		<u>\$36,000</u>	<u>\$9,000</u>	<u>\$27,000</u>
		<u> </u>	<u> </u>	<u> </u>
		<u> </u>	<u> </u>	<u> </u>

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